

City of Detroit


CITY COUNCIL

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TO: John W. Prymack, Director
Greater Detroit Resource Recover Authority

FROM: Irvin Corley, Jr., Fiscal Analysis Director 

DATE: May 4, 2009

RE: 2009-10 Budget Analysis

Attached is our budget analysis regarding your department's budget for the upcoming 2009-10 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Friday, May 8, 2009 at 2:00 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Joseph Harris, Chief Financial Officer
Pam Scales, Budget Department Director
Charleta McInnis, Budget Department Team Leader
Renee Short, Budget Manager II
Monica Johnson, Head Accountant-GDRRA
Arese Robinson, Mayor's Office

Greater Detroit Resource Recovery Authority

FY 2009-10 Budget Analysis by the Fiscal Analysis Division

The City of Detroit/Resource Recovery Agreement specifically mandates that "the City shall budget, appropriate and requisition City funds for payment of the Tipping Fee . . . ". It further states that " the City hereby recognizes and affirms that its obligations to pay Tipping Fees . . . are full faith and credit obligation of the City . . . The City expressly and irrevocably pledges its full faith and credit for the prompt and timely payment of the Tipping Fees, and shall each year, commencing with the Fiscal Year 1985-86, appropriate from its General Fund as a first budget obligation sufficient monies to pay such Tipping Fees." (emphasis added).

As a result of the language included in this agreement, it becomes a primary budget obligation to provide for the DPW Tipping Fee. It can be argued that this obligation supersedes the City's obligation to provide police, fire, sanitation and other generally recognized City services. It appears that the only way to avoid appropriating the Tipping Fee from the General Fund is if the City is actually in a default position resulting from bankruptcy, and the fee can then be assigned directly against the Detroit property owner. This would be done by assessing directly against the residential users of the Authority's Resource Recovery facility based on a flat annual fee and against commercial users of the facility based upon individual contracts.

The GDRRA bonds were refinanced in March 1996. As a result of the refinancing, the City will save approximately \$184 million over the remaining life of the GDRRA bonds.

The Tipping Fee amount is calculated by taking the sum of the operating fee, the authority's administrative expenses, plus debt service, less the authority's revenues. The attachment presents the request and calculation in detail.

The FY 2009-10 proposed Tipping Fee as calculated in the budget detail from GDRRA represents a decrease of 51.5%. The Tipping Fee decrease is the net result of operating expenses, including the total elimination of debt service estimated revenues decreasing by 55.22%. Included in the substantial decrease in expenses is the use of \$26.0 million of bond reserves as part of the final payment for debt service. The decrease in revenues includes the one-time revenue of \$25.0 million designated as DTE Escrow Fund used in the current fiscal year.

Issues and Questions

1. During budget development last year, two items received a great deal of attention and discussion, explain to Council the current status or the final outcome of the estimated \$26 million in bond reserves, and the \$25 million in revenue from the DTE Escrow Fund.

2. For agencies in the City Budget the Administration provides a surplus/deficit estimate for the current year along with major reasons for deviations from the budget. Provide Council with a budget to current year actual, through March 31, and projection to June 30, 2009, by account and explanation for deviations for your operation.
3. Explain the difference in tipping fee amount between the DPW budget of \$23,160,000 and the amount included in the budget detail for the Greater Detroit Resource Recovery Authority of 23,288,569. According to the Executive Budget for 2007-08 the following are targets for the Solid Waste Division of DPW: Tons of refuse collected, 320,000, Tons of bulk collected, 120,000, and Tons of yard waste collected 50,000. Will all of this be processed by GDRRA? If not, what would not be processed by GDRRA?
4. Explain the "Est. year end payable portion shortfall 2008-2009 of \$6,043,881 included in budget detail request. Is this just the amount of 2008-09 business related expenses that will be paid after the fiscal period, or is it a true deficit? Where the 2008-09 revenues do not cover 2008-09 expenses? How did this deficit happen? How long ago? How did GDRRA allow expenses to exceed revenues? How long will GDRRA continue to roll this amount, rather than incorporate the elimination of the in the budget request detail?
5. Your budget request appears to replicate the previous years structure, costs, and revenue with the exception of the elimination of debt service as if the operation of the plant will remain the same. Should GDRRA operation be reduced considerably considering the changing relationship and responsibilities of GDRRA in the operation of the plant? Why shouldn't the operator of the plant be responsible for contracting for solid waste from other entities other than Detroit? Or for the collection and sale of scrap metals, electricity and steam?
6. This may be a better question for the Administration to answer, but Council would be interested in your rational for the continuing the GDRRA, rather than incorporating the whole solid waste collection and disposal operation within the City as it was prior to GDRRA. GDRRA was created as a required structure to support the financing arrangement for the construction and operation of the resource recovery facility. Now that the financing arrangements are coming to an end why continue the authority? This arrangement has the costs of the activity of solid waste collection and disposal spread between the general fund, solid waste fund, the Department of Public Works and GDRRA. This results in the total cost being very difficult to determine without a great deal of analysis to identify all appropriate costs and eliminate all double accounting. While this was a necessary due to the financing agreements those reasons no longer seem to support the need for the authority. This arrangement provides additional appointed positions for the administration. Places a seemingly unnecessary intermediary between the City and the operation of disposal of solid waste. Does not provide a transparent structure allowing the total

cost of solid waste collection and disposal activity of the City to be seen. Allows for major policy and operating decisions to be made outside of the City structure.

7. What is the overall condition of the plant anticipated to be like when the debt is retired in a year? What was the life expectancy of the plant and equipment originally? Is the facility holding up in operation as planned? Is the facility in need of major or minor repairs? What is the estimated investment needed for repairs or improvements to extend the useful life? If plant is in need of any updates or repairs, who will be responsible for the payment of the costs? How will the tipping fee change if \$30 million in repairs are needed to continue operation of the plant?
8. Who owns the GDDRA facility on July 1, 2009?
9. Will GDDRA assist DPW in handling the recyclables from the pilot curbside collection program?
10. Page 35-23 of Executive Budget (attached) indicates that 800,000 in tonnage received/processed by GDDRA in 2008-09 and 2009-10. How will this be achieved?
11. Private hauler fees revenue is \$5,421,720 as a target for 2009-10 (see 35-23), but the GDDRA operating budget shows only \$5,192,388 for this revenue in 2009-10. Please explain discrepancy.
12. Page 35-23 shows 2,600,000 in steam sold (Mlb) in 2009-10, over 2,000,000 in 2008-09. However, the GDDRA operating budget shows steam sales declining by \$4.1 million. Please explain the discrepancy.
13. Is GDDRA up-to-date with its air pollution permits for the plant?

IC:JGP

Attachment

**Greater Detroit Resource Recovery Authority
Operating Budget Request**

	2008-09 <u>Budget</u>	2009-10 <u>Recommended</u>	<u>Inc/(Dec)</u>	% <u>Inc/(Dec)</u>
Expenses:				
Net Debt Service	\$ 57,177,656	\$ -	\$ (57,177,656)	-100.00%
Net APC Debt Service	18,712,217	-	(18,712,217)	-100.00%
Total Debt Service	75,889,873	-	(75,889,873)	-100.00%
Less: 1996 A & B Bond Reserve	(26,000,000)	-	26,000,000	-100.00%
Debt Service after Use of Reserve	49,889,873	-	(49,889,873)	-100.00%
Labor and Plant Maintenance	21,056,977	21,188,335	131,358	0.62%
Contractual Services/Other Costs	3,840,991	3,864,951	23,960	0.62%
Sales Taxes and Add'l Oper. Reven	3,946,164	3,970,781	24,617	0.62%
Lime Addition	1,371,609	1,417,584	45,975	3.35%
Purchased Electricity	486,031	471,770	(14,261)	-2.93%
Other Fuels	1,555,540	1,361,605	(193,935)	-12.47%
Water	816,275	845,848	29,573	3.62%
Sewerage	2,053,503	2,015,109	(38,394)	-1.87%
Electrical Intertie Maintenance	161,084	156,357	(4,727)	-2.93%
Steamline Maintenance	1,022,975	1,022,975	-	0.00%
Insurance	1,612,785	1,565,461	(47,324)	-2.93%
Supplemental Taxes	1,714,336	1,439,089	(275,247)	-16.06%
Hauling and Disposal Costs	19,206,905	18,579,267	(627,638)	-3.27%
Authority Administrative	4,323,267	2,326,156	(1,997,111)	-46.19%
Escrow Fee (Authority)	1,113,204	1,113,204	-	0.00%
Deficit Reduction Contribution	-	-	-	N//A
TOTAL EXPENSES	\$ 114,171,519	\$ 61,338,492	(52,833,027)	-46.28%
Revenues:				
Steam Sales	28,143,004	24,050,000	(4,093,004)	-14.54%
Electricity Sales	11,829,838	12,346,382	516,544	4.37%
Operators Energy Revenue	(5,935,927)	(5,459,459)	476,468	-8.03%
Investment Earnings	-	-	-	N//A
Private Hauler Fees	5,263,806	5,192,388	(71,418)	-1.36%
Recovered Material	1,778,927	1,920,612	141,685	7.96%
DTE Escrow Fund	25,000,000	-	(25,000,000)	-100.00%
TOTAL REVENUES	\$ 66,079,648	\$ 38,049,923	(28,029,725)	-42.42%
TIPPING FEE	\$ 48,091,871	\$ 23,288,569	(24,803,302)	-51.57%
Unfunded Prior Year Deficit	\$ 7,531,327	\$ 6,043,881		

NON-DEPARTMENTAL (35)

GREATER DETROIT RESOURCE RECOVERY AUTHORITY ACTIVITY INFORMATION

ACTIVITY DESCRIPTION: GREATER DETROIT RESOURCE RECOVERY AUTHORITY

The mission of the Greater Detroit Resource Recovery Authority (GDRRA) provides efficient, environmentally responsible waste disposal service(s) to the residential, commercial, industrial sectors of Detroit. This includes the acquisition, construction, improvement, enlargement, extension and operation of solid waste disposal facilities. The Authority's activities encompass one or more parts of a total waste management system (post collection) including transportation, recoverable materials marketing (recycling), generation and sale of waste derived fuel energy products (steam and electricity), and disposal. The Authority is a component unit, legally separate from the City of Detroit.

GOALS:

1. Optimize quantity and quality of the facility's waste.
2. Optimize quantity and quality of facilities energy products and recovered materials.
3. Minimize environmental impacts of Authority's waste management activities.
4. Maximize utilization of progressive management techniques and technology in performance of Authority business.

MAJOR INITIATIVES FOR FY 2008-09:

- The implementation of a long term energy purchase agreement for the sale of steam after June 30, 2009.
- To complete the request for proposal process and determine long term strategies for facility operations and municipal solid waste hauling and disposal.
- To determine the course of action necessary to market commodities collected during the City's pilot curbside recycling program.
- To explore options for disposal of the facilities post incineration by-products in an effort to maximize landfill avoidance.
- The implementation of improved processes and procedures to reduce the costs associated with the transportation of ferrous and non-ferrous metals.

PLANNING FOR THE FUTURE FOR FY 2009-10, FY 2010-11 and BEYOND:

GDRRA will continue to develop on-going long term strategies for alternative, efficient, and cost effective management of solid waste for the City of Detroit.

NON-DEPARTMENTAL (35)

GREATER DETROIT RESOURCE RECOVERY AUTHORITY MEASURES AND TARGETS

Type of Performance Measure: List of Measures	2006-07 Actual	2007-08 Actual	2008-09 Projection	2009-10 Target
Inputs: Resources Allocated or Service Demands Made				
Percent of staff software proficient	100%	100%	100%	100%
Outputs: Units of Activity directed toward Goals				
Tonnage received/processed	792,573	830,709	800,000	800,000
Private hauler fees revenue	\$5,311,969	\$6,475,322	\$5,263,806	\$5,421,720
Outcomes: Results or Impacts of Program Activities				
Steam sold (Mlb)	2,577,997	2,584,159	2,000,000	2,600,000
Electricity sold (Mwh)	195,975	235,078	241,376	241,376
Efficiency: Program Costs related to Units of Activity				
Recovered material recycled (tons)	35,800	41,081	25,213	32,000
Activity Costs	\$751,966	\$795,324	\$1,002,814	\$944,976

CITY OF DETROIT
Greater Detroit Resource Recovery Authority
Financial Detail by Appropriation and Organization

Grt Det Resource Recovery Authority	2008-09 Redbook		2009-10 Dept Final Request		2009-10 Mayor's Budget Rec	
Greater Detroit Resource Recovery Aut	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<i>APPROPRIATION</i>						
<i>ORGANIZATION</i>						
00276 - Greater Detroit Resource Recovery Authority						
350300 - Grt Det Resource Recovery Authority	11	\$1,002,814	11	\$1,057,938	11	\$944,976
APPROPRIATION TOTAL	11	\$1,002,814	11	\$1,057,938	11	\$944,976
ACTIVITY TOTAL	11	\$1,002,814	11	\$1,057,938	11	\$944,976

CITY OF DETROIT
Budget Development for FY 2009-2010
Appropriations - Summary Objects

	2008-09 Redbook	2009-10 Dept Final Request	2009-10 Mayor's Budget Rec
AC2035 - Greater Detroit Resource Recovery			
<i>A35000 - Non-Departmental</i>			
SALWAGESL - Salary & Wages	604,557	614,246	553,444
EMPBENESL - Employee Benef	380,965	426,400	382,332
OPERSVCSL - Operating Servic	14,292	14,292	6,200
OTHEXPSSL - Other Expenses	3,000	3,000	3,000
<i>A35000 - Non-Departmental</i>	<i>1,002,814</i>	<i>1,057,938</i>	<i>944,976</i>
AC2035 - Greater Detroit Resource Recov	1,002,814	1,057,938	944,976
Grand Total	1,002,814	1,057,938	944,976